

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Munising	County Alger
Fiscal Year End 6/30/2006	Opinion Date 8/21/2006	Date Audit Report Submitted to State 12-12-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

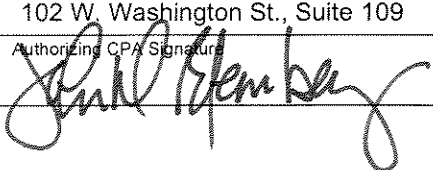
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman, & Co., P.L.C.		Telephone Number (906) 225-1166		
Street Address 102 W. Washington St., Suite 109		City Marquette	State MI	Zip 49855
Authorizing CPA Signature 		Printed Name John W. Blumberg, CPA, Partner		License Number P00361724

CITY OF MUNISING, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of the
City Council, and City Manager
City of Munising, Michigan 49862

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component units, major funds, and remaining fund information, which collectively comprise the basic financial statements of the City of Munising, Michigan, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, discretely presented component units, major funds and remaining fund information of the City of Munising, Michigan at June 30, 2006, and the changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2006 on our consideration of City of Munising, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor, Members of the
City Council and City Manager
City of Munising, Michigan 49862

The Management Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 45 and 46 are not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Munising, Michigan's basic financial statements. The combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 21, 2006

City of Munising, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Munising's financial performance provides an overview of the City's financial activities for the year ended June 30, 2006. Please read it in conjunction with the financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- Net assets for the City as a whole increased by \$406,090 as a result of this year's operations. Net assets of our business-type activities increased by \$156,910, or 2.2 percent, and net assets of our governmental activities increased by \$249,180, or 10.9 percent.
- During the year, the City had expenses for governmental activities that were \$2,069,331 and generated \$2,318,511 in general revenues and other program sources.
- The City's business-type activities had expenses of \$1,247,248 and generated \$1,404,158 in revenues.
- The general fund reported a net decrease in fund balance of \$148,922.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 and 14) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 8. One of the most important questions asked about the City's finances is; "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's patron base and the condition of the City's capital assets, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- *Governmental activities* – Most of the City's basic services are reported here, including the police, fire, public works and parks departments, and general administration. Property taxes, charges for services and state sources fund most of these activities.
- *Business-type activities* – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system and marina activities are reported here.
- *Component units* – The City includes four separate legal entities in its report – the Downtown Development Authority, the Munising Housing Commission the Landfill Authority and the Alger Parks and Recreation Department. Although legally separate, these "component units" are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 11. The fund financial statements begin on page 15 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using taxes, grants, and other money. The City's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities – such as the Motor Pool Fund and Municipal Building Authority Fund.

The City as Trustee

The City is the trustee, or fiduciary, for assets that – because of a trust arrangement – can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 22 and 23. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

Table I provides a summary of the City's net assets as of June 30, 2006.

Table 1 Net Assets						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$1,001,247	\$1,428,405	\$1,222,061	\$1,175,946	\$2,223,308	\$2,604,351
Noncurrent Assets	3,339,153	2,222,991	6,648,933	6,599,945	9,988,086	8,822,936
Total Assets	<u>4,340,400</u>	<u>3,651,396</u>	<u>7,870,994</u>	<u>7,775,891</u>	<u>12,211,394</u>	<u>11,427,287</u>
Current Liabilities	257,761	430,700	91,972	82,353	349,733	513,053
Noncurrent Liabilities	1,805,528	1,192,765	709,110	780,536	2,514,638	1,973,301
Total Liabilities	<u>2,063,289</u>	<u>1,623,465</u>	<u>801,082</u>	<u>862,889</u>	<u>2,864,371</u>	<u>2,486,354</u>
Net Assets:						
Invested in capital assets, net of related debt	1,988,158	1,546,431	5,858,725	5,774,529	7,846,883	7,320,960
Restricted	44,209	245,852	76,973	76,973	121,182	322,825
Unrestricted	244,744	235,648	1,134,214	1,061,500	1,378,958	1,297,148
Total Net Assets	<u>\$2,277,111</u>	<u>\$2,027,931</u>	<u>\$7,069,912</u>	<u>\$6,913,002</u>	<u>\$9,347,023</u>	<u>\$8,940,933</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Net assets of the City's governmental activities stood at \$2,277,111. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$244,744.

The \$244,744 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The net assets of our business-type activities stood at \$7,069,912. The City can generally only use these net assets to finance continuing operations of the water and sewer and other enterprise operations.

The results of this year's operations for the City as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	\$218,171	\$211,443	\$1,364,029	\$1,322,598	\$1,582,200	\$1,534,041
Operating grants and contributions	578,865	617,476	-	-	578,865	617,476
General Revenues:						
Property taxes	1,165,305	1,142,829	-	-	1,165,305	1,142,829
Unrestricted	302,797	306,168	-	-	302,797	306,168
Investment earnings	37,401	23,035	40,129	21,579	77,530	44,614
Miscellaneous	15,972	17,615	-	-	15,972	17,615
Total Revenues	<u>2,318,511</u>	<u>2,318,566</u>	<u>1,404,158</u>	<u>1,344,177</u>	<u>3,722,669</u>	<u>3,662,743</u>
Program Expenses:						
Legislative	12,916	11,578	-	-	12,916	11,578
General government	467,347	623,401	-	-	467,347	623,401
Public safety	425,019	467,883	-	-	425,019	467,883
Public works	942,179	830,979	-	-	942,179	830,979
Parks and recreation	147,321	117,965	-	-	147,321	117,965
Interest on long-term debt	74,549	38,909	-	-	74,549	38,909
Sewer	-	-	659,809	681,589	659,809	681,589
Water	-	-	462,211	436,921	462,211	436,921
Marina	-	-	125,228	111,163	125,228	111,163
Total Expenses	<u>2,069,331</u>	<u>2,090,715</u>	<u>1,247,248</u>	<u>1,229,673</u>	<u>3,316,579</u>	<u>3,320,388</u>
Increase (decrease) in net assets	249,180	227,851	156,910	114,504	406,090	342,355
Net assets, beginning	<u>2,027,931</u>	<u>1,800,080</u>	<u>6,913,002</u>	<u>6,798,498</u>	<u>8,940,933</u>	<u>8,958,578</u>
Net Assets, Ending	<u>\$2,277,111</u>	<u>\$2,027,931</u>	<u>\$7,069,912</u>	<u>\$6,913,002</u>	<u>\$9,347,023</u>	<u>\$8,598,578</u>

The City's total revenues were \$3,722,669. The total cost of all programs and services was \$3,316,579, leaving an increase in net assets of \$406,090. Our analysis below separately considers the operations of governmental and business-type activities:

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Governmental Activities

The increase in net assets is primarily attributable to the steadily increasing interest rate for investments, a significant decrease in General Government expenditures and modest increases in Property Taxes.

Table 3 presents the cost of each of the three largest programs – General Government, Public Safety, and Public Works – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each program placed on the City's operation.

	Table 3	
	Governmental Activities	
	Total Cost of Services	Net Cost of Services
General government	\$467,347	\$400,858
Public safety	425,019	406,493
Public works	942,179	537,535

Business-Type Activities

Net Assets increased due to a modest increase in Charges for Services and investment earnings. Expenditure increases were minimal.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a *combined* fund balance of \$599,168, a decrease of \$200,258 from the beginning of the year.

General Fund Budgetary Highlights

Over the course of the year, the City Commission revised the budget a few times. Significant revisions to the budget included an increase in the transfer to the Street Funds to cover increasing street repair and maintenance costs. These costs should be considerably decreased as street reconstruction commences with the proposed Water and Sewer Reconstruction project which is expected to be completed in 2008.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006, the City had \$9,942,154 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Table 4
Capital Assets at Year end
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$-	\$-	\$12,275	\$12,275	\$12,275	\$12,275
Construction in progress	28,136	453,619	394,507	52,211	422,643	505,830
Buildings and improvements	1,114,346	272,018	-	-	1,114,346	272,018
Equipment and furnishings	1,003,919	1,025,120	-	-	1,003,919	1,025,120
Infrastructure	1,156,492	415,974	-	-	1,156,492	415,974
Sewer plant and equipment	-	-	2,901,658	3,046,222	2,901,658	3,046,222
Water plant and equipment	-	-	2,558,419	2,655,671	2,558,419	2,655,671
Marina and Harbor Master Building	-	-	772,402	823,150	772,402	823,150
Total	\$3,302,893	\$2,166,731	\$6,639,261	\$6,589,529	\$9,942,154	\$8,756,260

In the 2006 fiscal year the City completed reconstruction of St. Martin's Hill and renovation of the new Department of Public Works facility. In addition, the City began preliminary engineering on the proposed Sewer and Water Reconstruction Project slated to break ground in May 2007.

Debt

At year-end, the City had \$2,651,879 in bonds and notes outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$1,339,350	\$651,300	\$-	\$-	\$1,339,350	\$651,300
Revenue bonds	-	-	750,000	815,000	750,000	815,000
Contracts and Notes Payable	531,993	595,380	30,536	-	562,529	595,380
Totals	\$1,871,343	\$1,246,680	\$780,536	\$815,000	\$2,651,879	\$2,061,680

There were two new additions to debt for this year and further details on long-term debt can be found in Note I.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's elected and appointed officials considered many factors when setting the fiscal year 2006 – 2007 budget. One of those factors is the economy.

The City continues to look at several means to raise revenue in the face of escalating declines in state revenue sharing. The City is now on a course to work on actually lowering the tax rate and stabilizing the water and sewer rates. Although this goal appears to some as contrary to the funding dilemma, it is important to create an atmosphere of affordable opportunity for growth. The City needs to draw more business and residential growth. Through the use of long-term low interest loans and grants, the City is improving infrastructure and facilities with the intent of creating a desirable location to live and work. Updating will also have a large and positive impact on the historically high repair costs that the City has experienced in recent years. Operating costs are being reviewed for savings. Health coverage and gas/utility expenditures

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

are monitored and efficiency procedures are being investigated. Geographically the City has room to expand and the water/sewer utility can accommodate growth. The City will continue to work with State, Federal, Corporate and non-profit agencies to partner in the funding mechanisms needed.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager at City of Munising, 101 W. Munising Avenue, Munising, Michigan, 49862.

City of Munising, Michigan

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 562,108	\$ 340,145	\$ 902,253	\$ 260,097
Cash and cash equivalents-reserved	131,665	-	131,665	4,292
Restricted assets	-	597,280	597,280	-
Receivables (net)	337,109	254,581	591,690	116,007
Investments	-	-	-	335,009
Primary government internal balances	(30,055)	30,055	-	-
Other current assets	420	-	420	2,163
TOTAL CURRENT ASSETS	1,001,247	1,222,061	2,223,308	717,568
Noncurrent assets:				
Long-term receivables	36,260	-	36,260	-
Unamortized bond issue costs	-	9,672	9,672	-
Capital assets:				
Land and construction in progress	28,136	406,782	434,918	-
Other capital assets	5,209,143	11,465,275	16,674,418	4,286,151
Accumulated depreciation	(1,934,386)	(5,232,796)	(7,167,182)	(2,441,593)
Total Capital Assets	3,302,893	6,639,261	9,942,154	1,844,558
TOTAL NONCURRENT ASSETS	3,339,153	6,648,933	9,988,086	1,844,558
TOTAL ASSETS	4,340,400	7,870,994	12,211,394	2,562,126
LIABILITIES:				
Current Liabilities:				
Accounts payable	42,184	1,882	44,066	77,845
Accrued liabilities	30,118	6,645	36,763	51,278
Accrued sick and vacation leave	18,230	12,019	30,249	-
Current portion of bonds payable	75,000	70,000	145,000	100,000
Current potion of notes payable	70,287	1,426	71,713	-
Other current liabilities	21,942	-	21,942	-
TOTAL CURRENT LIABILITIES	257,761	91,972	349,733	229,123
Noncurrent Liabilities:				
Compensated absences	79,472	-	79,472	-
Bonds payable	1,264,350	685,000	1,949,350	-
Long-term contracts and notes payable	461,706	24,110	485,816	-
Other	-	-	-	44,071
TOTAL NONCURRENT LIABILITIES	1,805,528	709,110	2,514,638	44,071
TOTAL LIABILITIES	2,063,289	801,082	2,864,371	273,194
NET ASSETS				
Invested in capital assets net of related debt	1,988,158	5,858,725	7,846,883	1,844,558
Restricted for:				
Debt Service	-	76,973	76,973	-
Other activities	44,209	-	44,209	-
Unrestricted	244,744	1,134,214	1,378,958	444,374
TOTAL NET ASSETS	\$ 2,277,111	\$ 7,069,912	\$ 9,347,023	\$ 2,288,932

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

Function / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business Type Activities	Component Units
Primary Government:							
Governmental Activities:							
Legislative	\$ 12,916	\$ -	\$ -	\$ -	\$ (12,916)	\$ -	\$ (12,916)
General government	467,347	56,489	10,000	-	(400,858)	-	(400,858)
Public safety	425,019	1,219	17,307	-	(406,493)	-	(406,493)
Public works	942,179	29,086	375,558	-	(537,535)	-	(537,535)
Parks and recreation	147,321	131,377	176,000	-	160,056	-	160,056
Interest on long-term debt	74,549	-	-	-	(74,549)	-	(74,549)
Total Governmental Activities	2,069,331	218,171	578,865	-	(1,272,295)	-	(1,272,295)
Business Type Activities:							
Sewer	659,809	773,878	-	-	-	114,069	114,069
Water	462,211	500,619	-	-	-	38,408	38,408
Marina	125,228	89,532	-	-	-	(35,696)	(35,696)
Total Business Type Activities	1,247,248	1,364,029	-	-	-	116,781	116,781
TOTAL PRIMARY GOVERNMENT	\$ 3,316,579	\$ 1,582,200	\$ 578,865	\$ -	(1,272,295)	116,781	(1,155,514)
Component Units:							
Downtown Development Authority	255,782	-	-	-	-	-	(255,782)
Landfill Authority	15,437	29,567	-	-	-	-	14,130
Housing Commission	670,925	216,162	237,808	97,434	-	-	(119,521)
Alger Parks & Recreation Department	204,064	57,170	192,517	-	-	-	(44,377)
TOTAL COMPONENT UNITS	\$ 1,146,208	\$ 302,899	\$ 340,325	\$ 97,434	-	-	(405,550)
General Revenues:							
Taxes:							
Property taxes							
Unrestricted intergovernmental sources							
Interest and investment earnings							
Miscellaneous							
Transfers							
					1,165,305	-	1,165,305
					302,797	-	302,797
					37,401	52,359	89,760
					3,742	-	3,742
					12,230	(12,230)	-
TOTAL GENERAL REVENUES & TRANSFERS					1,521,475	40,129	1,561,604
CHANGE IN NET ASSETS					249,180	156,910	406,090
Net assets, beginning of year, as restated					2,027,931	6,913,002	8,940,933
NET ASSETS, END OF YEAR					\$ 2,277,111	\$ 7,069,912	\$ 9,347,023

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2006

	General Fund	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 20,688	\$ -	\$ -	\$ 242,512	\$ 263,200
Cash and cash equivalents-reserved	122,584	-	-	9,081	131,665
Accounts receivable, net	15,137	-	-	10,000	25,137
Other receivables	73,167	-	-	-	73,167
Due from other governments	92,583	12,246	4,222	-	109,051
Due from other funds	135,524	-	-	-	135,524
Advances to other funds	-	-	-	-	-
Other assets	420	-	-	-	420
TOTAL ASSETS	\$ 460,103	\$ 12,246	\$ 4,222	\$ 261,593	\$ 738,164
LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Cash overdraft	\$ -	\$ 12,246	\$ 4,222	\$ -	\$ 16,468
Accounts payable	22,189	-	-	17,963	40,152
Accrued liabilities	13,254	-	-	-	13,254
Accrued sick and vacation leave	9,323	-	-	-	9,323
Due to other funds	4,047	-	-	33,810	37,857
Due to others	21,942	-	-	-	21,942
TOTAL LIABILITIES	70,755	12,246	4,222	51,773	138,996
FUND BALANCE:					
Reserved for:					
Capital outlay	-	-	-	-	-
Other	5,770	-	-	38,439	44,209
Unreserved, reported in:					
General Fund	383,578	-	-	-	383,578
Capital Projects Funds	-	-	-	192,287	192,287
Special Revenue Funds	-	-	-	(20,906)	(20,906)
TOTAL FUND BALANCE	389,348	-	-	209,820	599,168
TOTAL LIABILITIES AND FUND BALANCE	\$ 460,103	\$ 12,246	\$ 4,222	\$ 261,593	\$ 738,164

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2006

Total Fund Balances for Governmental Funds	\$	599,168
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*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (includes capital assets of internal service funds).		3,302,893
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Internal service funds are used by management to charge the costs of certain activities, such as the purchase and maintenance of equipment and vehicles and the operation of the Municipal Building, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets, net of capital assets.

Current assets	\$ 315,376	
Long-term receivables	36,260	
Current liabilities (other than debt)	<u>(8,907)</u>	
		342,729

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Current portion of bonds payable	\$ 75,000	
Current portion of notes and contracts payable	70,287	
Accrued interest on bonds	16,864	
Compensated absences	79,472	
Bonds payable	1,264,350	
Long-term contracts and notes payable	<u>461,706</u>	
		(1,967,679)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>2,277,111</u>
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The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2006

	General Fund	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 1,166,018	\$ -	\$ -	\$ -	\$ 1,166,018
Licenses and permits	31,789	-	-	-	31,789
Intergovernmental revenues	304,671	243,416	52,030	70,708	670,825
Charges for services	165,863	-	-	-	165,863
Fines and forfeits	1,219	-	-	-	1,219
Interest income	34,504	1,121	157	1,829	37,611
Other revenues	207,338	-	-	15,618	222,956
TOTAL REVENUES	1,911,402	244,537	52,187	88,155	2,296,281
EXPENDITURES:					
Current operations:					
Legislative	12,916	-	-	-	12,916
General government	463,596	-	-	-	463,596
Public safety	418,081	-	-	6,938	425,019
Public works	330,582	234,476	293,710	1,209,233	2,068,001
Parks and recreation	119,392	-	-	-	119,392
Debt service					
Principal retirement	30,000	39,772	-	58,616	128,388
Interest and fiscal charges	25,735	7,395	-	40,425	73,555
TOTAL EXPENDITURES	1,400,302	281,643	293,710	1,315,212	3,290,867
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	511,100	(37,106)	(241,523)	(1,227,057)	(994,586)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	-	758,050	758,050
Transfers in	27,385	33,660	241,523	518,336	820,904
Transfers out	(687,407)	(35,000)	-	(62,219)	(784,626)
TOTAL OTHER FINANCING SOURCES (USES)	(660,022)	(1,340)	241,523	1,214,167	794,328
CHANGE IN FUND BALANCE	(148,922)	(38,446)	-	(12,890)	(200,258)
Fund balance, beginning of year	538,270	38,446	-	222,710	799,426
FUND BALANCE, END OF YEAR	\$ 389,348	\$ -	\$ -	\$ 209,820	\$ 599,168

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (200,258)
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*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. Includes Internal Service Funds depreciation expense of \$184,444.

Capital outlays	\$ 1,183,841	
Depreciation expense	<u>(20,521)</u>	
		1,163,320

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	128,388
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Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.	(758,050)
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(995)
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	-
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Internal service funds are used by management to charge costs of certain activities, such as the purchase and maintenance of equipment and vehicles and the operation of the Municipal Building, to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities net of depreciation expense.

Change in net assets	715,585	
Capital contributions	<u>(798,810)</u>	
		(83,225)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 249,180</u>
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The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2006

	Business- Type Activities: Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer Fund	Water Fund	Marina Fund	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ -	\$ 217,405	\$ 150,975	\$ 368,380
Accounts receivable	143,448	87,516	30,687	261,651
Allowance for uncollectible accounts	(5,383)	(2,391)	-	(7,774)
Due from other governmental units	704	-	-	704
Due from other funds	33,810	38,052	-	71,862
Unamortized bond issuance costs	-	9,672	-	9,672
TOTAL CURRENT ASSETS	172,579	350,254	181,662	704,495
Restricted Assets:				
Construction	427,052	79,154	-	506,206
Debt retirement	-	71,853	-	71,853
Water System Reserve	-	5,120	-	5,120
Funded depreciation	-	-	14,101	14,101
TOTAL RESTRICTED ASSETS	427,052	156,127	14,101	597,280
Noncurrent Assets:				
Long-term receivables	-	-	-	36,260
Land	-	12,275	-	12,275
Construction in progress	232,108	162,399	-	394,507
Capital assets	5,253,018	5,081,968	1,130,289	11,465,275
Accumulated depreciation	(2,351,360)	(2,523,549)	(357,887)	(5,232,796)
TOTAL NONCURRENT ASSETS	3,133,766	2,733,093	772,402	6,639,261
TOTAL ASSETS	3,733,397	3,239,474	968,165	7,941,036
LIABILITIES				
Current Liabilities:				
Cash overdraft	28,235	-	-	28,235
Accounts payable	1,743	139	-	1,882
Accrued salaries	3,460	2,104	1,081	6,645
Accrued sick and vacation leave	6,902	5,117	-	12,019
Due to other funds	36,037	3,570	2,200	41,807
Current portion of long-term debt	36,426	35,000	-	71,426
TOTAL CURRENT LIABILITIES	112,803	45,930	3,281	162,014
Noncurrent Liabilities:				
Advances from other funds	-	-	-	-
Bonds payable	175,000	510,000	-	685,000
Notes payable	24,110	-	-	24,110
TOTAL NONCURRENT LIABILITIES	199,110	510,000	-	709,110
TOTAL LIABILITIES	311,913	555,930	3,281	871,124
NET ASSETS				
Invested in capital assets net of related debt	2,898,230	2,188,093	772,402	5,858,725
Net Assets:				
Restricted for debt service	-	76,973	-	76,973
Unrestricted	523,254	418,478	192,482	1,134,214
TOTAL NET ASSETS	\$ 3,421,484	\$ 2,683,544	\$ 964,884	\$ 7,069,912
				\$ 2,386,994

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2006

	Business- Type Activities: Enterprise Funds				Governmental Activities Internal Service Funds
	Sewer Fund	Water Fund	Marina Fund	Total	
OPERATING REVENUES:					
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	729,714	494,008	88,494	1,312,216	-
Rents and royalties	-	-	-	-	450,275
Other operating revenue	44,164	6,611	1,038	51,813	8,641
TOTAL OPERATING REVENUES	773,878	500,619	89,532	1,364,029	458,916
OPERATING EXPENSES:					
Transmission and distribution	-	307,065	-	307,065	-
Sewer maintenance/treatment	474,551	-	-	474,551	-
Personnel services	-	-	-	-	92,018
Services and supplies	-	-	-	-	146,061
Administrative and general	29,632	29,415	73,146	132,193	78,072
Repairs and maintenance	-	-	1,334	1,334	36,584
Depreciation	144,564	97,996	50,748	293,308	184,444
TOTAL OPERATING EXPENSES	648,747	434,476	125,228	1,208,451	537,179
OPERATING INCOME (LOSS)	125,131	66,143	(35,696)	155,578	(78,263)
NONOPERATING REVENUES (EXPENSES):					
Interest income	24,140	20,405	7,814	52,359	16,624
Federal grants	-	-	-	-	22,600
Interest expense	(11,062)	(27,735)	-	(38,797)	(2,209)
TOTAL NONOPERATING REVENUES (EXPENSES)	13,078	(7,330)	7,814	13,562	37,015
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	138,209	58,813	(27,882)	169,140	(41,248)
Capital contributions	-	-	-	-	798,810
Transfers in	-	-	-	-	-
Transfers (out)	(6,115)	(6,115)	-	(12,230)	(41,977)
CHANGE IN NET ASSETS	132,094	52,698	(27,882)	156,910	715,585
Net assets, beginning of year	3,319,926	2,630,846	992,766	6,943,538	1,671,409
Prior period adjustment	(30,536)	-	-	(30,536)	-
Net assets, beginning of year, as restated	3,289,390	2,630,846	992,766	6,913,002	1,671,409
NET ASSETS, END OF YEAR	\$ 3,421,484	\$ 2,683,544	\$ 964,884	\$ 7,069,912	\$ 2,386,994

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2006

	Business-Type Activities: Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Marina Fund	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from fees and charges for services	\$ 697,788	\$ 491,083	\$ 57,807	\$ 1,246,678	\$ 450,275
Other operating revenues	44,164	6,611	1,038	51,813	8,641
Cash payments to employees for services	(168,918)	(106,643)	(19,712)	(295,273)	(352,735)
Cash payments for payroll taxes	(43,159)	(78,802)	(1,482)	(123,443)	-
Cash payments to suppliers for goods and services	(290,007)	(151,022)	(52,205)	(493,234)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	239,868	161,227	(14,554)	386,541	106,181
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
(Decrease) in advances from other funds	-	(20,030)	-	(20,030)	-
(Decrease) in due to other funds	(33,810)	-	-	(33,810)	-
Payments from (to) other funds	(6,115)	(6,115)	-	(12,230)	(41,977)
Payments from other units	-	-	-	-	22,600
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(39,925)	(26,145)	-	(66,070)	(19,377)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(201,376)	(140,920)	-	(342,296)	(956,096)
Payments received on notes receivable	-	-	-	-	20,000
Capital contributions	-	-	-	-	798,810
Principal payments on revenue bonds and notes payable	(30,000)	(35,000)	-	(65,000)	(5,000)
Interest paid on revenue bonds and notes payable	(11,062)	(27,735)	-	(38,797)	(2,209)
NET CASH (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(242,438)	(203,655)	-	(446,093)	(144,495)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest income	24,140	20,405	7,814	52,359	16,624
(Increase) decrease in restricted assets:					
Construction	63,751	14,691	-	78,442	-
Funded Depreciation	-	-	-	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	87,891	35,096	7,814	130,801	16,624
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	45,396	(33,477)	(6,740)	5,179	(41,067)
Cash and cash equivalents, beginning of year	(73,631)	250,882	157,715	334,966	356,443
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ (28,235)	\$ 217,405	\$ 150,975	\$ 340,145	\$ 315,376
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 125,131	\$ 66,143	\$ (35,696)	\$ 155,578	\$ (78,263)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	144,564	97,996	50,748	293,308	184,444
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable - net	(31,926)	(2,925)	(30,687)	(65,538)	-
Increase (decrease) in accounts payable	1,743	139	-	1,882	-
Increase (decrease) in accrued salaries	356	(126)	1,081	1,311	-
Increase (decrease) in accrued sick and vacation	-	-	-	-	-
NET ADJUSTMENTS	114,737	95,084	21,142	230,963	184,444
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 239,868	\$ 161,227	\$ (14,554)	\$ 386,541	\$ 106,181

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	<u>Private-Purpose Trust Fund Substandard Housing</u>	<u>Agency Funds</u>
ASSETS		
Cash and equivalents	\$ 57,082	\$ 103,403
Due from others		
Due from other funds	<u>2,032</u>	<u>-</u>
TOTAL ASSETS	<u>59,114</u>	<u>\$ 103,403</u>
LIABILITIES		
Due to others	-	\$ 15,004
Due to other funds	<u>-</u>	<u>88,399</u>
TOTAL LIABILITIES	<u>-</u>	<u>\$ 103,403</u>
NET ASSETS		
Held in trust for individuals, organizations, and other governments	<u>59,114</u>	
TOTAL NET ASSETS	<u>\$ 59,114</u>	

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Fiscal Year Ended June 30, 2006

	<u>Private-Purpose Trust Fund Substandard Housing</u>
ADDITIONS:	
Contributions:	
Gifts, bequests and endowments	<u>\$ 2,336</u>
Total Contributions	<u>2,336</u>
Investment Income:	
Interest and dividends	<u> </u>
Net Investment Income (Loss)	<u>-</u>
TOTAL ADDITIONS (DEDUCTIONS)	<u>2,336</u>
DEDUCTIONS:	
Payments in accordance with trust agreements	<u> </u>
TOTAL DEDUCTIONS	<u>-</u>
CHANGE IN NET ASSETS	<u>2,336</u>
Net assets, beginning of year	<u>56,778</u>
NET ASSETS, END OF YEAR	<u><u>\$ 59,114</u></u>

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

COMPONENT UNITS

COMBINING STATEMENT OF NET ASSETS

June 30, 2006

	Downtown Development Authority	Landfill Authority	Housing Commission	Alger Parks & Recreation Department	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 157,684	\$ 9,204	\$ 58,815	\$ 34,394	\$ 260,097
Cash and cash equivalents-reserved	3,198	1,094	-	-	4,292
Receivables, net	84,258	30,207	1,542	-	116,007
Investments	-	-	335,009	-	335,009
Other assets	-	-	2,163	-	2,163
TOTAL CURRENT ASSETS	245,140	40,505	397,529	34,394	717,568
Noncurrent Assets:					
Capital assets	293,359	-	3,992,792	-	4,286,151
Accumulated depreciation	(22,455)	-	(2,419,138)	-	(2,441,593)
TOTAL NONCURRENT ASSETS	270,904	-	1,573,654	-	1,844,558
TOTAL ASSETS	516,044	40,505	1,971,183	34,394	2,562,126
LIABILITIES					
Current Liabilities:					
Accounts payable	61,921	-	15,300	624	77,845
Accrued liabilities	-	-	48,299	2,979	51,278
Current portion of bonds payable	100,000	-	-	-	100,000
TOTAL CURRENT LIABILITIES	161,921	-	63,599	3,603	229,123
Noncurrent Liabilities:					
Bonds payable	-	-	-	-	-
Other liabilities	-	-	44,071	-	44,071
TOTAL NONCURRENT LIABILITIES	-	-	44,071	-	44,071
TOTAL LIABILITIES	161,921	-	107,670	3,603	273,194
NET ASSETS					
Invested in capital assets net of related debt	270,904	-	1,573,654	-	1,844,558
Unrestricted	83,219	40,505	289,859	30,791	444,374
TOTAL NET ASSETS	\$ 354,123	\$ 40,505	\$ 1,863,513	\$ 30,791	\$ 2,288,932

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

COMPONENT UNITS

COMBINING STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

Function / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Landfill Authority	Housing Commission	Alger Parks & Recreation Department	Total
Downtown Development Authority Operations	\$ -	\$ -	\$ -	\$ (255,782)	\$ -	\$ -	\$ -	(255,782)
Landfill Authority Operations	29,567	-	-	-	14,130	-	-	14,130
Housing Commission Operations	216,162	237,808	97,434	-	-	(119,521)	-	(119,521)
Alger Parks and Recreation Department Operations	57,170	102,517	-	-	-	-	(44,377)	(44,377)
TOTAL COMPONENT UNITS	\$ 302,899	\$ 340,325	\$ 97,434	(255,782)	14,130	(119,521)	(44,377)	(405,550)
General Revenues:								
Property taxes				409,103	-	-	-	409,103
Interest and investment earnings				15,375	505	10,249	2,901	29,030
Miscellaneous				1,954	-	6,194	-	8,148
TOTAL GENERAL REVENUES				426,432	505	16,443	2,901	446,281
CHANGE IN NET ASSETS				170,650	14,635	(103,076)	(41,476)	40,731
Net assets, beginning of year				183,473	25,870	1,966,591	72,267	2,248,201
NET ASSETS, END OF YEAR				\$ 354,123	\$ 40,505	\$ 1,863,513	\$ 30,791	\$ 2,288,932

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

Notes to Financial Statements

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Munising conform to generally accepted accounting principles applicable to local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies.

Description

The City was chartered in 1915 under Public Act 279 of 1909, as amended, as a home rule city and is located in Alger County, Michigan. The City operates under a Commission (5 member) - Manager form of government. As required by generally accepted accounting principles, these financial statements present the City of Munising (the primary government) and its component units. The component units discussed in Note B are included in the City's reporting entity because of the significance of its operational and financial relationships with the City.

BASIS OF PRESENTATION

Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, public works, culture and recreation and general administrative services are classified as governmental activities. The City's water, sewer and marina services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities. For the most part, the effect of interfund activities has been removed from these statements.

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. The various funds are reported by generic classification within the financial statements. The City uses the following fund types:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- *General Fund* - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.
- *Special Revenue Funds* - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- *Capital Projects Funds* - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).
- *Debt Service Funds* – Debt Service Funds are used to account for the payment of interest and principal on long-term debt obligations.
- *Permanent Funds* – Permanent Funds are used to account for assets held by the City pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- *Enterprise Funds* - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- *Internal Service Funds* - Internal Service funds are used to account for the financing of goods or services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

Major Funds

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The City reports the following major governmental funds:

- The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **Major Street Fund** accounts for the receipt of allocated state shared gas and weight taxes. The expenditure of these funds is restricted to Federal and State trunklines and certain "mile" roads designated as major under contractual agreement with the State of Michigan.
- The **Local Street Fund** accounts for the allocated state shared gas and weight taxes for remaining City roads.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The City reports the following major proprietary funds:

- The **Sewer Fund** accounts for the activities related to sanitary sewer operation and booster stations and billing for services.
- The **Water Fund** accounts for the activities related to water treatment and distribution and billing for services.
- The **Marina Fund** accounts for the management of the City's marina including billing, maintenance and construction.

The City's internal service funds are presented in the proprietary funds financial statements. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government, public works, etc.)

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

All proprietary funds and private-purpose trust funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled water and sewer services are accrued as revenue in the Water and Sewer Funds based upon estimated consumption at year-end.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On the second Monday in April, the City Manager submits to the City Commission a proposed operating budget for the ensuing fiscal year commencing July 1 in accordance with the City Charter. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to its adoption, a public hearing is conducted at City Hall to obtain taxpayer comments.
3. Not later than the first Monday in May, the budget is adopted by the City Commission in accordance with the provisions of the City Charter.
4. The City Commission adopts the budget by functional categories in the general fund and by total fund level for special revenue funds. Any transfers of appropriations between functions must be approved by the City Commission. All unencumbered and unexpended appropriations lapse at year end.
5. Formal budgetary integration is employed as a management control device for the general fund and all special revenue funds. The budgets for the capital projects and enterprise funds are informational summaries only and are not covered under the City's General Appropriations Act or the State's Public Act 621.
6. The City Commission has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. Once originally adopted, the budget was formally amended during the fiscal year.
7. The legally adopted budgets and informational budget summaries for the funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) as applicable to each funds method of accounting.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Inventory

Inventory costs are recorded as expenditures when incurred.

Capital Assets

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Other costs incurred for repairs and maintenance are expenses as incurred.

Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements and proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	Depreciation Life – Years
Buildings and improvements	40 – 50
Land improvements	20 – 30
Plants, hydrants and tank	50 – 60
Water, sewer mains and meters	10 – 50
Equipment and Vehicles	5 – 15
Infrastructure	20 – 50

GASB No. 34 requires the City to report and depreciate new infrastructure assets placed in service after July 1, 2003. Infrastructure assets include roads, bridges, traffic signals, etc. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is optional for the City under GASB No. 34 and the City has elected not to retroactively report infrastructure assets prior to July 1, 2003.

Long-Term Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

Property Taxes

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied not later than July 1 and are payable by August 20 without penalty.

The City bills and collects its own property taxes and also the taxes for the local school district, the intermediate school district, and the county. Collections of local school taxes, intermediate school district taxes, and county taxes and remittance of them are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Munising because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Interfund Activity

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded and are subject to elimination upon consolidation.

Noncurrent portions of long-term interfund loans receivable are equally offset by a fund balance reserve account which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Compensated Absences

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – INDIVIDUAL COMPONENT UNIT DISCLOSURES:

Discretely Presented Component Units

The component unit column in the Statement of Net Assets includes the financial data for the Downtown Development Authority/TIF District, the Landfill Authority, the Munising Housing Commission and the Alger Parks and Recreation Department. They are reported in a separate column to emphasize that they are legally separate from the City. The purpose of the Downtown Development Authority/TIF entity is to foster development of the Downtown Business District. The purpose of the Landfill Authority is to control revenues and incur expenditures in connection with the Munising Landfill Closure. The purpose of the Munising Housing Commission is to provide low income housing programs to City residents. The purpose of the Alger Parks and Recreation Department is to provide a full-time, year-round, broad based recreation program to the residents of the City and surrounding townships.

The presentation of the financial statements of the Downtown Development Authority/TIF district, the Landfill Authority, and the Alger Parks and Recreation Department are complete, and there is no separately issued report for these entities.

A complete financial statement for the Munising Housing Commission can be obtained directly from the administrative office at 200 City Park Drive OFC, Munising, Michigan, 49862.

In accordance with the provisions of GASB Statement 14, certain other governmental organizations are not considered to be part of the reporting entity for financial reporting purposes. The criteria established for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements of Munising Public Schools are not included in the financial statements of the City.

NOTE C – DEPOSITS AND INVESTMENTS:

The composition of cash and equivalents reported on the statement of net assets are as follows:

	Primary Government	Component Units	Fiduciary Funds	Reporting Entity
Cash and equivalents	\$902,253	\$260,097	\$160,485	\$1,322,835
Cash – reserved	131,665	4,292	-	135,957
Restricted assets	597,280	-	-	597,280
TOTALS	<u>\$1,631,198</u>	<u>\$264,389</u>	<u>\$160,485</u>	<u>\$2,056,072</u>
A summary of deposits by type are:				
Cash in demand accounts	\$21,942	\$ -	\$ -	\$21,942
Cash in savings accounts	1,609,106	264,289	160,424	2,033,819
Petty cash	150	100	61	311
TOTAL DEPOSITS	<u>\$1,631,198</u>	<u>\$264,389</u>	<u>\$160,485</u>	<u>\$2,056,072</u>

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a deposit policy for custodial credit risk. The carrying amounts of the City's deposits with financial institutions was \$2,056,072 and the bank balance was \$2,209,316. Of the bank balance, \$239,728 or approximately 11% was covered by federal depository insurance according to FDIC regulations.

Investments

As of June 30, 2006, the City had no investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the City to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The City has no investment policy that would further limit its investment choices.

NOTE D – RESTRICTED ASSETS:

General Fund

Reserved Cash – The account represents the unspent portion of the 1996 General Obligation Limited Tax Bonds, cash collected from property taxes for street construction, and other miscellaneous reserves. The purpose of the bond issue is to fund the City's portion of the costs for closure and post closure care of the local landfill. The bond reserve balance as of June 30, 2006 is \$83,087.

The street construction reserve balance as of June 30, 2006 is \$17,555 and other miscellaneous reserve balance is \$21,942.

Capital Projects Fund

Reserved Cash – The account represents the unspent portion of the 2005 General Obligation Limited Tax Bonds for Department of Public Works Facility renovation. The reserve balance as of June 30, 2006 is \$9,081.

NOTE D – RESTRICTED ASSETS (Continued):

Sewer Fund

Construction - This account represents the cash collected from utility users to fund the infrastructure repairs on the sewer system as mandated by the Department of Environmental Quality. The June 30, 2006 balance is \$427,052.

Water Fund

Construction - This account represents the cash collected from utility users to fund the infrastructure repairs on the water system. The June 30, 2006 balance is \$79,154.

Under ordinance 1999-01, which authorized the issuance of the Water Supply System Revenue Refunding Bonds, the City is required to maintain the following cash reserves in the Water Fund:

Bond Interest and Redemption Fund - Money in this account is reserved for the current years principal and interest payments on the Water Supply System Revenue bonds. The June 30, 2006 balance is \$71,853.

Water System Reserve - This reserve was established to accumulate money solely for the purpose of making principal and interest payments in the event of default by the City. The June 30, 2006 balance is \$5,120.

Marina Fund

Funded Depreciation - This account was established to reserve cash in an amount equal to the yearly depreciation expense for the purpose of funding future asset purchases. The June 30, 2006 balance is \$14,101.

NOTE E – INTERFUND RECEIVABLES AND PAYABLES:

The amounts of interfund receivables and payables are as follows:

	Receivables		Payable
General Fund	\$135,525	Substandard Housing	\$2,032
		Water	2,015
Subtotal	165,524	Subtotal	4,047
Tax Collection	-	General	67,833
		DDA	20,566
Subtotal	-	Subtotal	88,400
Water	38,052	General	3,570
Sewer	33,810	Water	36,037
Marina	-	General	2,200
Brownfield Redevelopment Authority	-	Sewer	33,810
Substandard Housing	2,032	Sewer	-
DDA – Component Unit	20,566	General	61,921
TOTAL – REPORTING ENTITY	\$229,985	TOTAL - REPORTING ENTITY	\$229,985

All internal balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE F – CAPITAL ASSETS:

A summary of changes in governmental activities capital assets including internal service funds capital assets is as follows:

	Balance at 07/01/05	Additions	Disposals	Balance at 6/30/06
Capital assets not being depreciated:				
Construction in progress	\$453,619	\$1,103,855	\$1,529,338	\$28,136
Capital assets being depreciated:				
Land improvements	32,000	-	-	32,000
Buildings and improvements	724,268	852,035	-	1,576,303
Infrastructure	423,135	757,289	-	1,180,424
Equipment and vehicles	2,263,130	157,286	-	2,420,416
Total Capital Assets	<u>3,896,152</u>	<u>2,870,465</u>	<u>1,529,338</u>	<u>5,237,279</u>
Less accumulated depreciation:				
Land improvements	32,000	-	-	12,275
Buildings and improvements	452,250	9,707	-	461,957
Infrastructure	7,161	16,771	-	23,932
Equipment and vehicles	1,238,010	178,487	-	1,416,497
Total Accumulated Depreciation	<u>1,729,421</u>	<u>204,965</u>	<u>-</u>	<u>1,934,386</u>
Capital Assets, net	<u>\$2,166,731</u>	<u>\$2,665,500</u>	<u>\$1,529,338</u>	<u>\$3,302,893</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

Governmental Activities:	
General government	\$20,521
Internal service funds charged to above activities	<u>184,444</u>
Total Depreciation Expense – Governmental Activities	<u>\$204,965</u>

A summary of changes in business-type activities capital assets is as follows:

	Balance at 07/01/05	Additions	Disposals	Balance at 6/30/06
Capital assets not being depreciated:				
Land	\$12,275	\$ -	\$ -	\$12,275
Construction in progress	52,211	342,296	-	394,507
Capital assets being depreciated:				
Sewer plant and equipment	5,253,018	-	-	5,253,018
Water plant and equipment	5,081,968	-	-	5,081,968
Marina and Harbor Master building	1,130,289	-	-	1,130,289
Total Capital Assets	<u>11,529,761</u>	<u>342,296</u>	<u>-</u>	<u>11,872,057</u>
Less accumulated depreciation:				
Sewer plant and equipment	2,206,796	144,564	-	2,351,360
Water plant and equipment	2,426,297	97,252	-	2,523,549
Marina and Harbor Master building	307,139	50,748	-	357,887
Total Accumulated Depreciation	<u>4,940,232</u>	<u>292,564</u>	<u>-</u>	<u>5,232,796</u>
Capital Assets, net	<u>\$6,589,529</u>	<u>\$49,732</u>	<u>\$ -</u>	<u>\$6,639,261</u>

NOTE F – CAPITAL ASSETS (Continued):

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Business-Type Activities:	
Sewer system	\$144,564
Water system	97,252
Marina	<u>50,748</u>
Total Depreciation Expense – Business-Type Activities	<u>\$292,564</u>

NOTE G – INTERFUND TRANSFERS IN AND TRANSFERS OUT:

The interfund transfers for the year are as follows:

Fund	Transfer In	Fund	Transfer Out
General	\$27,385	Water	\$6,115
		Sewer	6,115
		Capital Projects	5,155
		DDA – Component Unit	10,000
Subtotal	<u>27,385</u>	Subtotal	<u>27,385</u>
Local Street	241,523	General	206,523
		Major	35,000
	<u>241,523</u>	Subtotal	<u>241,523</u>
Alger Parks and Recreation	27,929	General	27,929
Capital Projects	414,295	General	414,295
Police Training	5,000	General	5,000
Motor Pool	57,064	Capital Projects	57,064
Debt Retirement	40,425	Motor Pool	40,425
Road Construction Debt			
Service	58,616	Motor Pool	58,616
Major Street	<u>33,660</u>	General	<u>33,660</u>
TOTAL	<u>\$922,938</u>	TOTAL	<u>\$922,938</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE H – LONG-TERM DEBT:

The following is a summary of long-term debt transactions of the primary government and all component units for the year ended June 30, 2006:

Description	Balance July 1	Additions	Reductions	Balance June 30
PRIMARY GOVERNMENT:				
GOVERNMENTAL ACTIVITIES:				
State Infrastructure Bank Note Payable, payable In seven annual installments of \$16,627 and bearing interest of 4.00%	\$46,380	\$ -	\$14,772	\$31,608
Transportation Fund Bonds; 1994D issue maturing serially to 2008 in annual amounts of \$5,000 to \$10,000 and bearing interest from 5.35% to 8.00%	20,000	-	5,000	15,000
Transportation Fund Bonds, 1993C issue maturing serially to 2008 in annual variable amounts and bearing interest from 2.8% to 5.8%	85,000	-	20,000	65,000
1996 General Obligation Limited Tax Bonds maturing serially to 2017 in annual amounts of \$25,000 to \$55,000 and bearing interest from 4.95% to 5.75%	475,000	-	30,000	445,000
State Infrastructure Bank Note Payable, payable in ten annual installments of \$58,615 and bearing interest of 3. %	500,000	-	43,615	456,385
2005 General Obligation Limited Tax Bonds maturing serially to 2035 in annual amounts of \$15,000 to \$48,350 and bearing interest of 4.25%	71,300	758,050	15,000	814,350
1999-2000 Fire truck loan payable bearing interest of 4.75%	49,000	-	5,000	44,000
Subtotal	1,246,680	758,050	133,387	1,871,343
Accrued Sick & Vacation	79,472	-	-	79,472
TOTAL GOVERNMENTAL ACTIVITIES	1,326,152	758,050	133,387	1,950,815
BUSINESS-TYPE ACTIVITIES:				
1991 Sewage Disposal System Revenue Bonds maturing serially to 2010 in annual amounts of \$10,000 to \$50,000 and bearing interest of 6.125%	235,000	-	30,000	205,000
1999 Water Supply system Revenue Refunding Bonds maturing serially to 2019 in annual amounts of \$25,000 to \$50,000 and bearing interest of 4.81%	580,000	-	35,000	545,000
Northern Lights Revolving Loan payable bearing interest rate of 2.00%	36,835	-	6,299	30,536
TOTAL BUSINESS-TYPE ACTIVITIES	851,835	-	71,299	780,536
TOTAL PRIMARY GOVERNMENT	2,177,987	758,050	204,686	2,731,351
DISCRETELY PRESENTED COMPONENT UNITS:				
1993 Downtown Development General Obligation Bonds maturing serially to 2007 in annual amounts of \$10,000 to \$100,000 and bearing interest of 3.25% to 5.75%	200,000	-	100,000	100,000
TOTAL DISCRETELY PRESENTED COMPONENT UNITS	200,000	-	100,000	100,000
TOTAL REPORTING ENTITY	\$2,377,987	\$758,050	\$304,686	\$2,831,351

NOTE H – LONG-TERM DEBT (Continued):

Debt Service Requirements

The annual requirements to pay principal and interest based on debt outstanding at June 30, 2006 (exclusive of accrued sick and vacation) for the City are as follows:

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$140,287	\$79,423	\$76,426	\$40,411	\$216,713	\$119,834
2008	137,516	73,276	76,556	36,238	214,072	109,514
2009	128,660	67,068	81,688	32,248	210,348	99,316
2010	106,089	62,173	91,823	27,040	197,912	89,213
2011	108,562	57,846	94,043	21,702	202,605	79,548
2012-2016	557,879	215,649	215,000	70,240	772,879	285,889
2017-2021	175,000	127,241	145,000	15,340	320,000	142,581
2022-2026	151,000	97,740	-	-	151,000	97,740
2027-2031	186,000	62,674	-	-	186,000	62,674
2032-2036	180,350	19,608	-	-	180,350	19,608
Totals	<u>\$1,871,343</u>	<u>\$862,698</u>	<u>\$780,536</u>	<u>\$243,219</u>	<u>\$2,651,879</u>	<u>\$1,105,917</u>

Fiscal Year	Discrete Component Unit		Total Reporting Entity	
	Principal	Interest	Principal	Interest
2007	\$100,000	\$5,750	316,713	125,584
2008	-	-	214,072	109,514
2009	-	-	210,348	99,316
2010	-	-	197,912	89,213
2011	-	-	202,605	79,548
2012-2016	-	-	772,879	285,889
2017-2021	-	-	320,000	142,581
2022-2026	-	-	151,000	97,740
2027-2031	-	-	186,000	62,674
2032-2036	-	-	180,350	19,608
Totals	<u>\$100,000</u>	<u>\$5,750</u>	<u>\$2,751,879</u>	<u>\$1,111,667</u>

Compensated Absences

The City's employment policies provide for vacation and sick leave benefits to be earned in varying amounts depending on the employee's years of service.

The following is a summary of compensated absences:

Current portion	30,249
Long-term portion	79,472
Total	<u>109,721</u>

NOTE I – DEFINED BENEFIT PENSION PLAN:

The following information is based upon the latest available actuarial valuation (as of December 31, 2003).

Plan Description

The City contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

The qualified employees of the Police Department and the Fire Department along with all other full-time employees of the City are eligible to participate in the System. Benefits vest after ten years of service. City employees who retire at or after the age of 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life. Qualified employees receive a monthly payment equal to 2.25 percent of final average compensation, with a maximum benefit of 80% of final average compensation. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Funding Policy

City employees are required to contribute -0- percent of their annual compensation to the System. The City is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$159,144 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002 using the entry age normal cost method. Significant actuarial assumptions used include an 8.0% investment rate of return and projected salary increases of 4.5% per year. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions over a period ranging from 30 to 37 years.

Analysis of Funding Progress Three-Year Trend Information

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)- Entry Age (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a) - (b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/03	\$4,679,390	\$4,345,346	\$334,166	93%	\$1,061,763	31%
12/31/04	4,710,390	4,082,118	628,272	87%	997,790	64%
12/31/05	5,722,209	4,660,740	1,061,469	81%	922,609	115%

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued):

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/2004	12/31/03	\$107,928	100%	-
06/30/2005	12/31/04	152,484	100%	-
06/30/2006	12/31/05	159,144	100%	-

NOTE J – CONTINGENT LIABILITIES:**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently participates with other municipalities in the Michigan Municipal Liability and Property Pool, a public entity risk pool operating as a common risk management and insurance program. The City pays an annual premium for its general liability and real and personal property protection. The Pool will be self-sustaining through member premiums and will pay for losses sustained in excess of specified deductible amounts.

The City continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Landfill Closure

Through 1991, the City, area municipalities and other entities operated a local landfill. The landfill is closed, and now it is undergoing the post closure process. Necessary costs are being paid by the users in proportion to the amount of tonnage disposed at the landfill. The City's portion was estimated at 26.25% of the total.

The costs of closure are approximated at \$2,256,000. Based on the distribution of 26.25%, the City would be responsible for \$592,000 of this amount. This amount includes engineering and design of the cap, construction of the cap and hydro geological study. The City issued \$650,000 in bonds during fiscal year 1996-1997 to finance its share of the costs. No further costs associated with the closure process are expected.

The post closure costs associated with contingency reserves and 30 years of monitoring and maintenance are estimated at \$836,000 with the City's portion being \$220,000. These costs are to be paid as incurred as part of the City's general operating budget. During the year the City paid \$-0- for these post closure costs. The Landfill is in year six of the post closure period.

Wastewater System

The City has been cited by the Department of Environmental Quality (DEQ) for five violations of State Acts resulting from deficiencies in its wastewater collection system. The City is currently taking action to remedy the situation. Inaction raises the potential for imposition of fines and penalties by the DEQ.

NOTE J – CONTINGENT LIABILITIES (Continued):

The City prepared a five year plan documenting how it plans to address these issues. On an on-going basis, revisions/updates to this plan will be submitted to DEQ as well as reports on projects undertaken in accordance with this plan.

NOTE K – BUDGET VIOLATIONS:

Public Act 621 of 1978, Section 18(1), as amended, provides that a City shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the General and Special Revenue Funds have been shown on a functional basis.

The approved budgets of the City for the General and Special Revenue Funds were adopted on an activity and/or program level. During the year ended June 30, 2006, the City incurred functional expenditures which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Final Amended Budget</u>	<u>Expenditures</u>	<u>Variance</u>
Special Revenue Funds:			
Local Street	\$289,325	\$293,710	\$4,385
Brownfield Redevelopment	-	25,392	25,392

NOTE L – DEFERRED COMPENSATION PLAN:

The City of Munising offers its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The plans are available to all City employees, and permit them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the City's general creditors. Therefore in accordance with the provisions of GASB Statement No. 32, Plan balances and activities are not reflected in these financial statements.

The Plan's participants have the right to designate how the funds will be invested. Accordingly, the City has no liability for losses under the Plan. The Plan's assets are held in trust for the exclusive benefit of the Plan's participants and their beneficiaries.

The City's plans are administered by the International City Manager's Association (ICMA), and the Variable Annuity Life Insurance Company (VALIC). ICMA, as Plan administrator, agrees to hold harmless and indemnify the City, its appointed and elected officers and participating employees from any loss resulting from ICMA or their respective agents' failure to perform their duties and services pursuant to the ICMA program.

NOTE M – CONSTRUCTION IN PROGRESS:

The City began a project to make improvements at St. Martin's Hill to stop erosion into Munising Bay for which the total project cost was estimated at \$679,000. The project was financed through grants of approximately \$179,000 and a State Infrastructure bank loan of \$500,000. As of June 30, 2006, the construction project was completed and the costs incurred amounted to \$677,303.

The City began a project to renovate a new Department of Public Works facility purchased in fiscal year 2005. The total project cost was estimated at \$830,000 to be financed through issuance of 2005 General Obligation Limited Tax Bonds. As of June 30, 2006, the construction project was completed and the costs incurred amounted to \$852,035.

The City has begun projects to construct additions, extensions and improvements to the City's Sanitary Sewage and Water Filtration Systems. These projects are in the initial planning stages and engineering costs incurred through June 30, 2006 amounted to \$217,066 and \$162,399, respectively.

The City has begun projects to improve H-58. The total costs incurred through June 30, 2006 amounted to \$28,136 in the General Fund and \$15,042 in the Sewer Fund.

NOTE N – DEFICIT FUND BALANCE/NET ASSETS:

As of June 30, 2006, the Brownfield Redevelopment Authority Fund reported a deficit in unreserved fund balance of \$25,182.

NOTE O – NET ASSETS RESTATED:

The business-type activities – Sewer Fund net assets were restated at the beginning of the year as a result of an accounting error in the reporting of a note payable to Northern Lights Revolving Loan Fund. The restatement resulted in a decrease of net assets of \$30,536.

Required Supplementary Information

City of Munising, Michigan

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP	Final Budget
			Basis	Positive
				(Negative)
REVENUES:				
Property taxes	\$ 1,168,150	\$ 1,168,150	\$ 1,166,018	\$ (2,132)
Licenses and permits	30,000	30,000	31,789	1,789
Intergovernmental revenues	339,430	339,430	304,671	(34,759)
Charges for services	150,150	150,150	165,863	15,713
Fines and forfeits	1,500	1,500	1,219	(281)
Interest income	18,000	18,000	34,504	16,504
Other revenues	68,110	68,110	207,338	139,228
TOTAL REVENUES	1,775,340	1,775,340	1,911,402	136,062
EXPENDITURES:				
Legislative	14,000	14,000	12,916	1,084
General government	506,123	510,443	463,596	46,847
Public safety	451,500	452,760	418,081	34,679
Public works	427,693	382,646	330,582	52,064
Parks and recreation	84,600	122,595	119,392	3,203
Debt service	55,735	55,735	55,735	-
TOTAL EXPENDITURES	1,539,651	1,538,179	1,400,302	137,877
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	235,689	237,161	511,100	273,939
OTHER FINANCING SOURCES (USES):				
Transfers in	167,865	167,865	27,385	(140,480)
Transfers out	(530,754)	(530,754)	(687,407)	(156,653)
TOTAL OTHER FINANCING SOURCES (USES)	(362,889)	(362,889)	(660,022)	(297,133)
CHANGE IN FUND BALANCE	(127,200)	(125,728)	(148,922)	(23,194)
Fund balance, beginning of year	538,270	538,270	538,270	-
FUND BALANCE, END OF YEAR	\$ 411,070	\$ 412,542	\$ 389,348	\$ (23,194)

City of Munising, Michigan

MAJOR SPECIAL REVENUE FUNDS

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2006

	MAJOR STREET FUND				LOCAL STREET FUND			
	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES:								
Intergovernmental revenue	\$ 293,000	\$ 293,000	\$ 243,416	\$ (49,584)	\$ 95,000	\$ 95,000	\$ 52,030	\$ (42,970)
Interest income	1,700	1,700	1,121	(579)	500	500	157	(343)
TOTAL REVENUES	294,700	294,700	244,537	(50,163)	95,500	95,500	52,187	(43,313)
EXPENDITURES:								
Public works	257,610	279,101	234,476	44,625	228,325	289,325	293,710	(4,385)
Debt Service	46,587	46,587	47,167	(580)	-	-	-	-
TOTAL EXPENDITURES	304,197	325,688	281,643	44,045	228,325	289,325	293,710	(4,385)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(9,497)	(30,988)	(37,106)	(6,118)	(132,825)	(193,825)	(241,523)	(47,698)
OTHER FINANCING SOURCES (USES):								
Transfers in	6,051	27,542	33,660	6,118	132,825	193,825	241,523	47,698
Transfers out	(35,000)	(35,000)	(35,000)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(28,949)	(7,458)	(1,340)	6,118	132,825	193,825	241,523	47,698
CHANGE IN FUND BALANCE	(38,446)	(38,446)	(38,446)	-	-	-	-	-
Fund balance, beginning of year	38,446	38,446	38,446	-	-	-	-	-
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

City of Munising, Michigan

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The function of the General Fund is to record all revenues and expenditures of the City which are not accounted for in other funds. The General Fund receives revenue from many sources which are used to finance a wide range of City activities.

The major activities financed by the General Fund are Fire and Police Protection, Public Works, Parks and Recreation, City Administration and most public services.

The modified accrual basis of accounting is used in recording General Fund transactions.

SPECIAL REVENUE FUNDS

The function of the Special Revenue Funds is to record revenue and expenditures for specific functions or activities within restrictions imposed by City Charter, ordinances, resolutions and/or Federal and State statutes.

MAJOR STREET AND LOCAL STREET FUND: Michigan's Act 51 of 1993, as amended, allocates gasoline and weight taxes to build and maintain roads, roadsides and storm sewers and to remove snow from and to control traffic along roads. These tax monies may be transferred between funds only as permitted by law. Other revenues include general taxes transferred from the General Fund. Within the City, Federal and State trunklines and certain "mile" roads are maintained by the City under contractual agreement with the State of Michigan and are subject to reimbursement to the City. The remaining mile roads and certain other roads are designated as MAJOR STREETS, maintained on a priority basis by the City, and the remaining roads are designated as LOCAL STREETS.

City of Munising, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
Property Taxes:			
Property taxes	\$ 1,137,000	\$ 1,139,708	\$ 2,708
Penalties, interest and fees	31,000	25,974	(5,026)
Trailer taxes	150	336	186
Total Property Taxes	<u>1,168,150</u>	<u>1,166,018</u>	<u>(2,132)</u>
Licenses and Permits:			
Business licenses and franchises	29,000	29,779	779
Other licenses and permits	1,000	2,010	1,010
Total Licenses and Permits	<u>30,000</u>	<u>31,789</u>	<u>1,789</u>
Intergovernmental Revenue:			
Payments in lieu of taxes	10,000	9,198	(802)
State revenue sharing	297,910	293,599	(4,311)
Federal grants	20,520	1,874	(18,646)
Other	11,000	-	(11,000)
Total Intergovernmental Revenue	<u>339,430</u>	<u>304,671</u>	<u>(34,759)</u>
Charges for Services:			
Industrial park leases	4,800	5,400	600
Tourist park fees	112,350	131,377	19,027
Solid waste disposal tags	33,000	29,086	(3,914)
Total Charges for Services	<u>150,150</u>	<u>165,863</u>	<u>15,713</u>
Fines and forfeits	<u>1,500</u>	<u>1,219</u>	<u>(281)</u>
Interest income	<u>18,000</u>	<u>34,504</u>	<u>16,504</u>
Other Miscellaneous Revenue:			
Special assessments	2,960	(713)	(3,673)
Cemetery lots	22,000	19,300	(2,700)
Private contributions	-	-	-
Local contributions	10,000	176,000	166,000
Other	33,150	12,751	(20,399)
Total Other Miscellaneous Revenue	<u>68,110</u>	<u>207,338</u>	<u>139,228</u>
TOTAL REVENUES	<u>1,775,340</u>	<u>1,911,402</u>	<u>136,062</u>

City of Munising, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
EXPENDITURES:			
LEGISLATIVE:			
Personnel services	\$ 3,100	\$ 3,286	\$ (186)
Supplies	400	850	(450)
Other services and charges	10,500	8,780	1,720
Capital outlay	-	-	-
TOTAL LEGISLATIVE	<u>14,000</u>	<u>12,916</u>	<u>1,084</u>
GENERAL GOVERNMENT:			
Executive:			
Personnel services	114,015	106,380	7,635
Supplies	500	255	245
Other services and charges	12,560	13,919	(1,359)
Capital outlay	200	994	(794)
Total Executive	<u>127,275</u>	<u>121,548</u>	<u>5,727</u>
Elections:			
Personnel services	2,500	679	1,821
Supplies	1,000	609	391
Other services and charges	2,700	850	1,850
Capital outlay	1,000	108	892
Total Elections	<u>7,200</u>	<u>2,246</u>	<u>4,954</u>
Legal and Accounting:			
Personnel services	-	-	-
Supplies	7,000	7,268	(268)
Other services and charges	28,820	28,923	(103)
Capital outlay	-	-	-
Total Legal and Accounting	<u>35,820</u>	<u>36,191</u>	<u>(371)</u>
Assessor:			
Personnel services	-	-	-
Supplies	100	55	45
Other services and charges	19,430	18,448	982
Capital outlay	-	-	-
Total Assessor	<u>19,530</u>	<u>18,503</u>	<u>1,027</u>
Clerk:			
Personnel services	64,343	64,748	(405)
Supplies	4,500	2,681	1,819
Other services and charges	36,880	28,593	8,287
Capital outlay	1,500	500	1,000
Total Clerk	<u>107,223</u>	<u>96,522</u>	<u>10,701</u>
Board of Review:			
Personnel services	350	208	142
Supplies	-	-	-
Other services and charges	100	166	(66)
Capital outlay	-	-	-
Total Board of Review	<u>450</u>	<u>374</u>	<u>76</u>

City of Munising, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
Treasurer:			
Personnel services	\$ 59,174	\$ 42,472	\$ 16,702
Supplies	500	495	5
Other services and charges	18,390	17,432	958
Capital outlay	300	265	35
Total Treasurer	78,364	60,664	17,700
Cemetery:			
Personnel services	48,000	40,024	7,976
Supplies	1,300	1,073	227
Other services and charges	21,000	13,430	7,570
Capital outlay	500	733	(233)
Total Cemetery	70,800	55,260	15,540
Other General Government:			
Insurance	26,000	26,000	-
Other miscellaneous services and charges	37,781	46,288	(8,507)
Total Other General Government	63,781	72,288	(8,507)
TOTAL GENERAL GOVERNMENT	510,443	463,596	46,847
PUBLIC SAFETY:			
Police Department:			
Personnel services	329,905	323,420	6,485
Supplies	4,200	4,106	94
Other services and charges	31,550	34,929	(3,379)
Capital outlay	-	771	(771)
Total Police Department	365,655	363,226	2,429
Fire Department:			
Personnel services	4,000	1,505	2,495
Supplies	8,000	5,354	2,646
Other services and charges	44,300	39,834	4,466
Capital outlay	24,520	2,460	22,060
Total Fire Department	80,820	49,153	31,667
Planning:			
Personnel services	3,050	3,400	(350)
Supplies	100	-	100
Other services and charges	3,135	2,302	833
Capital outlay	-	-	-
Total Planning	6,285	5,702	583
TOTAL PUBLIC SAFETY	452,760	418,081	34,679
PUBLIC WORKS:			
Public Works Department:			
Personnel services	184,443	137,022	47,421
Supplies	6,750	8,666	(1,916)
Other services and charges	131,350	124,046	7,304
Capital outlay	-	-	-
Total Public Works Department	322,543	269,734	52,809

City of Munising, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
Sanitation and Refuse Collection:			
Other services and charges	\$ 60,103	\$ 60,848	\$ (745)
Total Sanitation and Refuse Collection	<u>60,103</u>	<u>60,848</u>	<u>(745)</u>
TOTAL PUBLIC WORKS	<u>382,646</u>	<u>330,582</u>	<u>52,064</u>
PARKS AND RECREATION:			
Parks and Recreation Department:			
Personnel services	32,700	30,449	2,251
Supplies	850	1,252	(402)
Other services and charges	22,500	28,253	(5,753)
Capital outlay	-	-	-
Total Parks and Recreation Department	<u>56,050</u>	<u>59,954</u>	<u>(3,904)</u>
Tourist Park:			
Personnel services	6,600	5,196	1,404
Supplies	800	471	329
Other services and charges	50,595	50,675	(80)
Capital outlay	-	-	-
Total Tourist Park	<u>57,995</u>	<u>56,342</u>	<u>1,653</u>
Ice Arena:			
Other services and charges	8,550	3,096	5,454
Total Ice Arena	<u>8,550</u>	<u>3,096</u>	<u>5,454</u>
TOTAL PARKS AND RECREATION	<u>122,595</u>	<u>119,392</u>	<u>3,203</u>
DEBT SERVICE:			
Principal payments	30,000	30,000	-
Interest and fiscal charges	25,735	25,735	-
TOTAL DEBT SERVICE	<u>55,735</u>	<u>55,735</u>	<u>-</u>
TOTAL EXPENDITURES	<u>1,538,179</u>	<u>1,400,302</u>	<u>137,877</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>237,161</u>	<u>511,100</u>	<u>273,939</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	167,865	27,385	(140,480)
Transfers out	(530,754)	(687,407)	(156,653)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(362,889)</u>	<u>(660,022)</u>	<u>(297,133)</u>
CHANGE IN FUND BALANCE	<u>(125,728)</u>	<u>(148,922)</u>	<u>(23,194)</u>
Fund balance, beginning of year	<u>538,270</u>	<u>538,270</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 412,542</u>	<u>\$ 389,348</u>	<u>\$ (23,194)</u>

City of Munising, Michigan

MAJOR STREET FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental revenue	\$ 293,000	\$ 243,416	\$ (49,584)
Interest income	1,700	1,121	(579)
TOTAL REVENUES	<u>294,700</u>	<u>244,537</u>	<u>(50,163)</u>
EXPENDITURES:			
Public Works:			
Construction	-	-	-
Routine maintenance	36,500	29,505	6,995
Street/catch basin cleaning	32,330	25,551	6,779
Traffic services maintenance	3,910	1,409	2,501
Winter maintenance	102,500	89,609	12,891
General and administrative	6,450	932	5,518
Highway M-28	97,411	87,470	9,941
Total Public Works	<u>279,101</u>	<u>234,476</u>	<u>44,625</u>
Debt Service:			
Principal retirement	39,192	39,772	(580)
Interest and fiscal charges	7,395	7,395	-
Total Debt Service	<u>46,587</u>	<u>47,167</u>	<u>(580)</u>
TOTAL EXPENDITURES	<u>325,688</u>	<u>281,643</u>	<u>44,045</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(30,988)</u>	<u>(37,106)</u>	<u>(6,118)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	27,542	33,660	6,118
Transfers (out)	<u>(35,000)</u>	<u>(35,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,458)</u>	<u>(1,340)</u>	<u>6,118</u>
CHANGE IN FUND BALANCE	<u>(38,446)</u>	<u>(38,446)</u>	<u>-</u>
Fund balance, beginning of year	<u>38,446</u>	<u>38,446</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Munising, Michigan

LOCAL STREET FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental revenue	\$ 95,000	\$ 52,030	\$ (42,970)
Interest income	500	157	(343)
TOTAL REVENUES	<u>95,500</u>	<u>52,187</u>	<u>(43,313)</u>
EXPENDITURES:			
Public Works:			
Construction	-	-	-
Routine maintenance	84,000	105,607	(21,607)
Street/catch basin cleaning	37,300	36,930	370
Traffic services maintenance	3,025	2,790	235
Winter maintenance	159,000	147,659	11,341
General and administrative	6,000	724	5,276
TOTAL EXPENDITURES	<u>289,325</u>	<u>293,710</u>	<u>(4,385)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(193,825)</u>	<u>(241,523)</u>	<u>(47,698)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	193,825	241,523	47,698
Transfers (out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>193,825</u>	<u>241,523</u>	<u>47,698</u>
CHANGE IN FUND BALANCE	-	-	-
Fund balance, beginning of year	-	-	-
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Combining and Individual Fund Financial Statements

City of Munising, Michigan

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The function of the Special Revenue Funds is to record revenues and expenditures for specific functions or activities within restrictions imposed by City Charter, ordinances, resolutions and/or Federal and State statutes. The modified accrual basis of accounting is used in recording Special Revenue Fund transactions. The POLICE TRAINING FUND is a nonmajor special revenue fund types.

PERMANENT FUNDS

The function of Permanent Funds is to account for funds where only the interest earnings may be used. The principal cannot be spent. The accrual basis of accounting is used in recording Permanent Fund transactions. The CEMETERY FUND is a permanent fund type.

CAPITAL PROJECTS FUND

The function of the Capital Projects Fund is to record revenues and expenditures for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). The modified accrual basis of accounting is used in recording Capital Project Fund transactions.

City of Munising, Michigan

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2006

ASSETS

Cash and cash equivalents	\$ 13,056	\$ -	\$ 191,017	\$ 38,439	\$ 242,512
Cash and cash equivalents-restricted	-	-	9,081	-	9,081
Accounts receivable, net	-	-	10,000	-	10,000
Other assets	-	-	-	-	-
TOTAL ASSETS	\$ 13,056	\$ -	\$ 210,098	\$ 38,439	\$ 261,593

LIABILITIES AND FUND BALANCE

LIABILITIES:

Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	152	-	17,811	-	17,963
Due to other funds	33,810	-	-	-	33,810
TOTAL LIABILITIES	33,962	-	17,811	-	51,773

FUND BALANCE:

Reserved for:					
Cemetery Trust	-	-	-	38,439	38,439
Unreserved, reported in:					
Capital projects funds	-	-	192,287	-	192,287
Special revenue funds	(20,906)	-	-	-	(20,906)
TOTAL FUND BALANCE	(20,906)	-	192,287	38,439	209,820

TOTAL LIABILITIES & FUND BALANCE

TOTAL LIABILITIES & FUND BALANCE	\$ 13,056	\$ -	\$ 210,098	\$ 38,439	\$ 261,593
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City of Munising, Michigan

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Fund	Permanent Fund Cemetery Trust Fund	Total
REVENUES:					
Intergovernmental revenue	\$ 596	-	\$ 70,112	-	\$ 70,708
Interest income	210	-	-	1,619	1,829
Other revenue	5,618	-	10,000	-	15,618
TOTAL REVENUES	6,424	-	80,112	1,619	88,155
EXPENDITURES:					
Current operations:					
Public safety	6,938	-	-	-	6,938
Public works	25,392	-	-	-	25,392
Capital outlay	-	-	1,183,841	-	1,183,841
Debt service	-	58,616	-	-	58,616
Principal retirement	-	40,425	-	-	40,425
Interest and fiscal charges	-	-	-	-	-
TOTAL EXPENDITURES	32,330	99,041	1,183,841	-	1,315,212
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(25,906)	(99,041)	(1,103,729)	1,619	(1,227,057)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	758,050	-	758,050
Transfers in	5,000	99,041	414,295	-	518,336
Transfers (out)	-	-	(62,219)	-	(62,219)
TOTAL OTHER FINANCING SOURCES (USES)	5,000	99,041	1,110,126	-	1,214,167
CHANGE IN FUND BALANCE	(20,906)	-	6,397	1,619	(12,890)
Fund balance, beginning of year	-	-	185,890	36,820	222,710
FUND BALANCE, END OF YEAR	\$ (20,906)	\$ -	\$ 192,287	\$ 38,439	\$ 209,820

City of Munising, Michigan

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

June 30, 2006

	Police Training Fund	Brownfield Redevelopment Authority Fund	Total
ASSETS			
Cash and cash equivalents	\$ 4,276	\$ 8,780	\$ 13,056
Accounts receivable, net	-	-	-
Other current assets	-	-	-
TOTAL ASSETS	<u>\$ 4,276</u>	<u>\$ 8,780</u>	<u>\$ 13,056</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accrued liabilities	\$ -	\$ 152	\$ 152
Due to other funds	-	33,810	33,810
TOTAL LIABILITIES	<u>-</u>	<u>33,962</u>	<u>33,962</u>
FUND BALANCE:			
Unreserved	<u>4,276</u>	<u>(25,182)</u>	<u>(20,906)</u>
TOTAL FUND BALANCE	<u>4,276</u>	<u>(25,182)</u>	<u>(20,906)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,276</u>	<u>\$ 8,780</u>	<u>\$ 13,056</u>

City of Munising, Michigan

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2006

	Police Training Fund	Brownfield Redevelopment Authority Fund	Total
REVENUES:			
Intergovernmental revenue	\$ 596	\$ -	\$ 596
Interest income	-	210	210
Other revenue	5,618	-	5,618
TOTAL REVENUES	<u>6,214</u>	<u>210</u>	<u>6,424</u>
EXPENDITURES:			
Current operations:			
Public safety	6,938	-	6,938
Public works	-	25,392	25,392
TOTAL EXPENDITURES	<u>6,938</u>	<u>25,392</u>	<u>32,330</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(724)</u>	<u>(25,182)</u>	<u>(25,906)</u>
OTHER FINANCING SOURCES:			
Transfers in	5,000	-	5,000
Transfers (out)	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>5,000</u>	<u>-</u>	<u>5,000</u>
CHANGES IN FUND BALANCE	<u>4,276</u>	<u>(25,182)</u>	<u>(20,906)</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 4,276</u></u>	<u><u>\$ (25,182)</u></u>	<u><u>\$ (20,906)</u></u>

City of Munising, Michigan

POLICE TRAINING FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Intergovernmental revenue	\$ 1,326	\$ 596	\$ (730)
Other	<u>5,000</u>	<u>5,618</u>	<u>618</u>
TOTAL REVENUES	<u>6,326</u>	<u>6,214</u>	<u>(112)</u>
EXPENDITURES:			
Public Safety:			
Other services and charges	<u>7,026</u>	<u>6,938</u>	<u>88</u>
TOTAL EXPENDITURES	<u>7,026</u>	<u>6,938</u>	<u>88</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(700)	(724)	(24)
OTHER FINANCING SOURCES:			
Transfers in	<u>-</u>	<u>5,000</u>	<u>5,000</u>
CHANGE IN FUND BALANCE	(700)	4,276	4,976
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ (700)</u></u>	<u><u>\$ 4,276</u></u>	<u><u>\$ 4,976</u></u>

City of Munising, Michigan

BROWNFIELD REDEVELOPMENT AUTHORITY

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
Interest income	\$ -	\$ 210	\$ 210
Other	-	-	-
TOTAL REVENUES	<u>-</u>	<u>210</u>	<u>210</u>
EXPENDITURES:			
Public Works:			
Other services and charges	-	25,392	(25,392)
TOTAL EXPENDITURES	<u>-</u>	<u>25,392</u>	<u>(25,392)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	-	(25,182)	(25,182)
OTHER FINANCING SOURCES:			
Transfers in	-	-	-
CHANGE IN FUND BALANCE	-	(25,182)	(25,182)
Fund balance, beginning of year	-	-	-
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ (25,182)</u></u>	<u><u>\$ (25,182)</u></u>

City of Munising, Michigan

NONMAJOR DEBT SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2006

	Building Construction Debt Service Fund	Road Construction Debt Service Fund	Total
REVENUES:			
Intergovernmental revenue	\$ -	\$ -	\$ -
Interest income	-	-	-
Other revenue	-	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:			
Debt Service:			
Principal	15,000	43,616	58,616
Interest and other	25,425	15,000	40,425
TOTAL EXPENDITURES	<u>40,425</u>	<u>58,616</u>	<u>99,041</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(40,425)</u>	<u>(58,616)</u>	<u>(99,041)</u>
OTHER FINANCING SOURCES:			
Transfers in	40,425	58,616	99,041
Transfers (out)	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>40,425</u>	<u>58,616</u>	<u>99,041</u>
CHANGES IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Munising, Michigan

CAPITAL PROJECTS FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Intergovernmental revenue	\$ -	\$ 70,112	\$ 70,112
Interest income	-	-	-
Other	-	10,000	10,000
TOTAL REVENUES	<u>-</u>	<u>80,112</u>	<u>80,112</u>
EXPENDITURES:			
Capital outlay	<u>1,109,350</u>	<u>1,183,841</u>	<u>(74,491)</u>
TOTAL EXPENDITURES	<u>1,109,350</u>	<u>1,183,841</u>	<u>(74,491)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(1,109,350)</u>	<u>(1,103,729)</u>	<u>5,621</u>
OTHER FINANCING SOURCES:			
Proceeds from borrowing	1,109,350	758,050	(351,300)
Transfers in	790,000	414,295	(375,705)
Transfers (out)	-	(62,219)	(62,219)
TOTAL OTHER FINANCING SOURCES	<u>1,899,350</u>	<u>1,110,126</u>	<u>(789,224)</u>
CHANGE IN FUND BALANCE	790,000	6,397	(783,603)
Fund balance, beginning of year	<u>-</u>	<u>185,890</u>	<u>185,890</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 790,000</u></u>	<u><u>\$ 192,287</u></u>	<u><u>\$ (597,713)</u></u>

City of Munising, Michigan

ENTERPRISE FUNDS

The function of the Enterprise Funds is to record the financing, acquisition, operation and maintenance of City activities that are predominantly self-supporting from user charges. The accrual basis of accounting is used in recording Enterprise Fund transactions.

City of Munising, Michigan

SEWER FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006

With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006			
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2005
OPERATING REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Charges for services:				
Sales to customers	666,500	604,275	(62,225)	552,402
Repairs, taps and permits	5,000	2,265	(2,735)	2,606
Sewer improvements	135,000	123,174	(11,826)	140,353
Other	50,000	44,164	(5,836)	50,308
TOTAL OPERATING REVENUES	856,500	773,878	(82,622)	745,669
OPERATING EXPENSES:				
Sewer Collection:				
Personnel services	44,600	22,465	22,135	37,152
Supplies	2,000	369	1,631	2,396
Professional services	11,000	2,349	8,651	8,862
Other services and charges	12,000	219	11,781	4,633
Equipment rental	15,000	6,826	8,174	6,796
Total Sewer Collection	<u>84,600</u>	<u>32,228</u>	<u>52,372</u>	<u>59,839</u>
Sewer Treatment:				
Personnel services	235,100	234,368	732	260,520
Supplies	21,300	26,220	(4,920)	10,612
Professional services	51,000	35,981	15,019	37,060
Other services and charges	135,200	145,754	(10,554)	123,777
Equipment rental	12,000	-	12,000	11,424
Total Sewer Treatment	<u>454,600</u>	<u>442,323</u>	<u>12,277</u>	<u>443,393</u>
Administrative and General:				
Personnel services	19,623	17,879	1,744	17,562
Supplies	1,200	1,105	95	725
Professional services	39,875	6,763	33,112	1,300
Other services and charges	4,300	3,885	415	3,778
Total Administrative and General	<u>64,998</u>	<u>29,632</u>	<u>35,366</u>	<u>23,365</u>
Depreciation	90,000	144,564	(54,564)	139,495
TOTAL OPERATING EXPENSES	694,198	648,747	45,451	666,092
OPERATING INCOME (LOSS)	162,302	125,131	(37,171)	79,577
NONOPERATING REVENUES (EXPENSES):				
Interest income	5,500	24,140	18,640	4,421
Interest expense	(15,950)	(11,062)	4,888	(15,497)
TOTAL NONOPERATING REVENUES (EXPENSES)	(10,450)	13,078	23,528	(11,076)
INCOME BEFORE TRANSFERS	151,852	138,209	(13,643)	68,501
Transfers (out)	(271,115)	(6,115)	265,000	-
CHANGE IN NET ASSETS	(119,263)	132,094	251,357	68,501
Net assets, beginning of year	3,319,926	3,319,926	-	3,251,425
Prior period adjustment	-	(30,536)	(30,536)	
Net assets, beginning of year, as restated	<u>3,319,926</u>	<u>3,289,390</u>	<u>(30,536)</u>	<u>3,251,425</u>
NET ASSETS, END OF YEAR	\$ 3,200,663	\$ 3,421,484	\$ 220,821	\$ 3,319,926

City of Munising, Michigan

WATER FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006			
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2005
OPERATING REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Charges for services:				
Sales to customers	398,000	371,441	(26,559)	344,016
Repairs, taps and permits	3,000	1,149	(1,851)	2,187
Water improvements	125,000	121,418	(3,582)	138,229
Other	1,000	6,611	5,611	389
TOTAL OPERATING REVENUES	527,000	500,619	(26,381)	484,821
OPERATING EXPENSES:				
Transmission and Distribution:				
Personnel services	160,300	195,114	(34,814)	176,562
Supplies	19,400	15,460	3,940	13,537
Professional services	12,000	2,218	9,782	3,761
Other services and charges	79,250	63,100	16,150	58,584
Equipment rental	28,000	31,173	(3,173)	32,515
Total Transmission and Distribution	<u>298,950</u>	<u>307,065</u>	<u>(8,115)</u>	<u>284,959</u>
Administrative and General:				
Personnel services	19,623	17,843	1,780	17,527
Supplies	1,200	1,229	(29)	1,043
Professional services	9,500	6,795	2,705	664
Other services and charges	23,730	3,548	20,182	3,566
Total Administrative and General	<u>54,053</u>	<u>29,415</u>	<u>24,638</u>	<u>22,800</u>
Depreciation	<u>90,000</u>	<u>97,996</u>	<u>(7,996)</u>	<u>100,197</u>
TOTAL OPERATING EXPENSES	443,003	434,476	8,527	407,956
OPERATING INCOME (LOSS)	83,997	66,143	(17,854)	76,865
NONOPERATING REVENUES (EXPENSES):				
Interest income	7,500	20,405	12,905	11,900
Interest expense	(62,735)	(27,735)	35,000	(28,965)
TOTAL NONOPERATING REVENUES (EXPENSES)	(55,235)	(7,330)	47,905	(17,065)
INCOME BEFORE TRANSFERS	28,762	58,813	30,051	59,800
Transfers (out)	(131,115)	(6,115)	125,000	-
CHANGE IN NET ASSETS	(102,353)	52,698	155,051	59,800
Net assets, beginning of year	<u>2,630,846</u>	<u>2,630,846</u>	<u>-</u>	<u>2,571,046</u>
NET ASSETS, END OF YEAR	\$ 2,528,493	\$ 2,683,544	\$ 155,051	\$ 2,630,846

City of Munising, Michigan

MARINA FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006

With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006			
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2005
OPERATING REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Charges for services:				
Dock fees	47,500	56,087	8,587	52,470
Boat ramp fees	8,000	6,947	(1,053)	6,742
Gas sales and other	21,650	25,460	3,810	25,855
Other	750	1,038	288	7,041
TOTAL OPERATING REVENUES	77,900	89,532	11,632	92,108
OPERATING EXPENSES:				
Administrative and General:				
Personnel services	22,000	22,275	(275)	19,621
Supplies	25,000	28,823	(3,823)	23,661
Other services and charges	21,700	22,048	(348)	15,731
Total Administrative and General	68,700	73,146	(4,446)	59,013
Repairs and maintenance	2,000	1,334	666	1,401
Depreciation	43,000	50,748	(7,748)	50,749
TOTAL OPERATING EXPENSES	113,700	125,228	(11,528)	111,163
OPERATING INCOME (LOSS)	(35,800)	(35,696)	104	(19,055)
NONOPERATING REVENUES (EXPENSES):				
Interest income	3,000	7,814	4,814	5,258
TOTAL NONOPERATING REVENUES	3,000	7,814	4,814	5,258
CHANGE IN NET ASSETS	(32,800)	(27,882)	4,918	(13,797)
Net assets, beginning of year	992,766	992,766	-	1,006,563
NET ASSETS, END OF YEAR	\$ 959,966	\$ 964,884	\$ 4,918	\$ 992,766

City of Munising, Michigan

INTERNAL SERVICE FUNDS

The function of Internal Service Funds is to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City and to other government units, on a cost reimbursement basis.

City of Munising, Michigan

ALL INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF NET ASSETS

June 30, 2006

	Motor Pool Fund	Municipal Building Authority Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 312,337	\$ 3,039	\$ 315,376
Other current assets	-	-	-
TOTAL CURRENT ASSETS	<u>312,337</u>	<u>3,039</u>	<u>315,376</u>
Noncurrent Assets:			
Long-term receivables	-	36,260	36,260
Construction in progress	-	-	-
Capital assets	3,510,719	-	3,510,719
Accumulated depreciation	(1,422,454)	-	(1,422,454)
TOTAL NONCURRENT ASSETS	<u>2,088,265</u>	<u>36,260</u>	<u>2,124,525</u>
TOTAL ASSETS	<u>2,400,602</u>	<u>39,299</u>	<u>2,439,901</u>
LIABILITIES			
Current Liabilities:			
Accrued salaries	-	-	-
Accrued sick and vacation leave	8,907	-	8,907
Current maturities on long-term debt	5,000	-	5,000
TOTAL CURRENT LIABILITIES	<u>13,907</u>	<u>-</u>	<u>13,907</u>
Long-term Liabilities:			
Notes payable	39,000	-	39,000
TOTAL LIABILITIES	<u>52,907</u>	<u>-</u>	<u>52,907</u>
NET ASSETS			
Invested in capital assets net of related debt	2,044,265	-	2,044,265
Net Assets:			
Unrestricted	303,430	39,299	342,729
TOTAL NET ASSETS	<u>\$ 2,347,695</u>	<u>\$ 39,299</u>	<u>\$ 2,386,994</u>

City of Munising, Michigan

ALL INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2006

	Motor Pool Fund	Municipal Building Authority Fund	Total
OPERATING REVENUES:			
Rents and royalties	\$ 393,376	\$ 56,899	\$ 450,275
Other	4,174	4,467	8,641
TOTAL OPERATING REVENUES	397,550	61,366	458,916
OPERATING EXPENSES:			
Personnel services	65,317	26,701	92,018
Services and supplies	132,991	13,070	146,061
Administrative and general	28,600	49,472	78,072
Repairs and maintenance	25,529	11,055	36,584
Depreciation	184,444	-	184,444
TOTAL OPERATING EXPENSES	436,881	100,298	537,179
OPERATING INCOME (LOSS)	(39,331)	(38,932)	(78,263)
NON-OPERATING REVENUES (EXPENSES):			
Interest income	15,900	724	16,624
Federal grants	22,600	-	22,600
Interest expense	(2,209)	-	(2,209)
TOTAL NON-OPERATING REVENUES (EXPENSES)	36,291	724	37,015
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(3,040)	(38,208)	(41,248)
Capital contributions	798,810	-	798,810
Transfers (out)	(41,977)	-	(41,977)
CHANGE IN NET ASSETS	753,793	(38,208)	715,585
Net assets, beginning of year	1,593,902	77,507	1,671,409
NET ASSETS, END OF YEAR	\$ 2,347,695	\$ 39,299	\$ 2,386,994

City of Munising, Michigan

MOTOR POOL FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006

With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006		Variance with Final Budget Positive (Negative)	2005
	Final Budget	Actual GAAP Basis		
OPERATING REVENUES:				
Rents and royalties	\$ 364,350	\$ 393,376	\$ 29,026	\$ 402,453
Other	-	4,174	4,174	-
TOTAL OPERATING REVENUES	<u>364,350</u>	<u>397,550</u>	<u>33,200</u>	<u>402,453</u>
OPERATING EXPENSES:				
Personnel services	56,542	65,317	(8,775)	51,797
Services and supplies	295,000	132,991	162,009	105,917
Administrative and general	29,600	28,600	1,000	28,387
Repairs and maintenance	30,000	25,529	4,471	23,017
Depreciation	110,000	184,444	(74,444)	164,806
TOTAL OPERATING EXPENSES	<u>521,142</u>	<u>436,881</u>	<u>84,261</u>	<u>373,924</u>
OPERATING INCOME (LOSS)	<u>(156,792)</u>	<u>(39,331)</u>	<u>117,461</u>	<u>28,529</u>
NONOPERATING REVENUES (EXPENSES):				
Interest income	12,000	15,900	3,900	14,318
Federal grants	24,000	22,600	(1,400)	-
Interest expense	<u>(57,479)</u>	<u>(2,209)</u>	<u>55,270</u>	<u>(2,446)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(21,479)</u>	<u>36,291</u>	<u>57,770</u>	<u>11,872</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	<u>(178,271)</u>	<u>(3,040)</u>	<u>175,231</u>	<u>40,401</u>
Capital contributions	-	798,810	798,810	-
Transfers (out)	<u>(58,616)</u>	<u>(41,977)</u>	<u>16,639</u>	<u>(39,958)</u>
CHANGE IN NET ASSETS	<u>(236,887)</u>	<u>753,793</u>	<u>990,680</u>	<u>443</u>
Net assets, beginning of year	<u>1,593,902</u>	<u>1,593,902</u>	<u>-</u>	<u>1,593,459</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,357,015</u></u>	<u><u>\$ 2,347,695</u></u>	<u><u>\$ 990,680</u></u>	<u><u>\$ 1,593,902</u></u>

City of Munising, Michigan

MUNICIPAL BUILDING AUTHORITY FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006

With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006		Variance with Final Budget Positive (Negative)	2005
	Final Budget	Actual GAAP Basis		
OPERATING REVENUES:				
Rents and royalties	\$ -	\$ 56,899	\$ 56,899	\$ 53,749
Other	-	4,467	4,467	-
TOTAL OPERATING REVENUES	-	61,366	61,366	53,749
OPERATING EXPENSES:				
Personnel services	-	26,701	(26,701)	11,195
Services and supplies	-	13,070	(13,070)	20,052
Administrative and general	-	49,472	(49,472)	37,274
Repairs and maintenance	-	11,055	(11,055)	7,877
TOTAL OPERATING EXPENSES	-	100,298	(100,298)	76,398
OPERATING INCOME (LOSS)	-	(38,932)	(38,932)	(22,649)
NONOPERATING REVENUES (EXPENSES):				
Interest income	-	724	724	1,328
TOTAL NONOPERATING REVENUES (EXPENSES)	-	724	724	1,328
CHANGE IN NET ASSETS	-	(38,208)	(38,208)	(21,321)
Net assets, beginning of year	77,507	77,507	-	98,828
NET ASSETS, END OF YEAR	\$ 77,507	\$ 39,299	\$ (38,208)	\$ 77,507

COMPLIANCE SUPPLEMENTS



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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ROBERT J. DOWNS, CPA, CVA

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MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor, Members of the
City Council and City Manager
City of Munising, MI 49862

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Munising as of and for the year ended June 30, 2006, which collectively comprise the City of Munising's basic financial statements and have issued our report thereon dated August 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Munising's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. These instances can be found in a separate letter to management dated August 21, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Munising financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*. These instances can be found in a separate letter to management dated August 21, 2006.

This report is intended solely for the information and use of the audit committee, management, and Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 21, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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MICHIGAN
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MILWAUKEE

City of Munising, Michigan Report to Management Letter For the Year Ended June 30, 2006

To the Honorable Mayor and Members of
the City Council
City of Munising, Michigan
Munising, MI 49862

In planning and performing our audit of the financial statements of the City of Munising, Michigan for the year ended June 30, 2006, we considered its internal accounting control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable Conditions

Cash Reconciliation

In any system of internal accounting control one of the main ingredients is a strong reconciliation function. The general ledger contains the accounts and records which are the basis for the preparation of financial statements and for them to be free of a material error or irregularity, the necessity for timely and accurate reconciliations cannot be overemphasized. We noted during our audit that variances existed in the reconciliation of several cash accounts. We recommend and good internal control dictates the cash accounts be reconciled accurately to the general ledger on a monthly basis and any adjustments to be made be processed timely.

Tax Collection

We noted during our audit that immaterial variances existed in the reconciliation of taxes collected and disbursed to local units. We recommend and good internal dictates that the tax collection data be reconciled accurately and timely.

Instances of Non-Compliance

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

To the Honorable Mayor and Members of
the City Council
City of Munising, Michigan

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures shall be filed with the State Treasurer and reported to the Attorney General.

The City was found to be in violation of the legal and contractual provisions of Public Act 621 in certain individual funds as enumerated upon in Footnote K.

Fund Balance Deficit

At June 30, 2006 the following fund had an unrestricted equity deficit:

Fund	Deficit Equity Balance
Brownfield Redevelopment Authority Fund	\$25,182

Public Act 275 of 1980 requires that all deficits in any fund balances of local units be disclosed and enumerated upon in Footnotes of the financial statements.

In accordance with the Act, a corrective action plan for the deficit is required to be filed with the State Treasurer within 90 days of the end of the fiscal year. As of this time, the City of Munising has not filed such a plan. We recommend the City monitor the fund closer in future years to ensure there are sufficient revenues to cover the expenditures each year.

Other comments and Recommendations

Cash Deficits in Certain Funds

At June 30, 2006 the following funds had a cash and investment deficit:

Fund	Deficit Cash/Investment Balance
Governmental Activities:	
Special Revenue Funds:	
Major Street	\$12,246
Local Street	4,222
Business-Type Activities:	
Sewer	28,235

To the Honorable Mayor and Members of
the City Council
City of Munising, Michigan

Although these funds had cash deficits the overall cash position of the City is positive. These deficits do however represent use of resources of other funds and in essence are inter-fund working capital loans or advances. We remind the Board these are normally short term in nature. We suggest the Board evaluate the remedy to replenish these funds and restore them to a more natural position.

* * * * *

This report is intended solely for the information and use of the City Council, the City’s management, and others within the City Administration.

We appreciate and would like to thank the City’s staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2006

**CITY OF MUNISING, MICHIGAN
FEDERAL FINANCIAL ASSISTANCE
For the Year Ended June 30, 2006**

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Robert J. Downs, CPA, CVA

Daniel E. Bianchi, CPA

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Honorable Mayor, Members of the City
Council and the City Manager of the
City of Munising, Michigan 49862

We have audited the financial statements of the governmental activities, business-type activities, discretely presented component units, major funds, and remaining fund information, which collectively comprise the basic financial statements of the City of Munising, Michigan as of and for the year ended June 30, 2006, and have issued our report thereon dated August 21, 2006. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Munising, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item number 06-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Munising, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment could affect the City of Munising, Michigan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are

described in the accompanying schedule of findings and responses as item number 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated August 21, 2006.

This report is intended solely for the information and use of management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 21, 2006



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor, Members of the City
Council and the City Manager of the
City of Munising, Michigan 49862

Compliance

We have audited the compliance of the City of Munising, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Munising, Michigan's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Munising, Michigan's management. Our responsibility is to express an opinion on the City of Munising, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Munising, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not

Honorable Mayor, Members of the City
Council and the City Manger of the
City of Munising, Michigan 49862

provide a legal determination on the City of Munising, Michigan's compliance with those requirements.

In our opinion, the City of Munising, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Munising, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Munising, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one ore more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of City of Munising, Michigan, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 21, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the City of Munising, Michigan. Such information has been subjected to the auditing procedures applied in the examination of the financial

Honorable Mayor, Members of the City
Council and the City Manger of the
City of Munising, Michigan 49862

statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Andersen, Tackman & Company, PLLC
Certified Public Accountants

August 21, 2006

City of Munising, Michigan
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2006

Federal Grantor/Pass Through Grantor Program Title	Federal C.F.D.A. Number	Project Number	Award Amount	Federal Expenditures
U.S. Department of Agriculture:				
Direct Award:				
Community Facilities Loan - Department of Public Works Facility	10.766	N/A	829,350	\$ 758,050
Community Facilities Grant - Police Car Purchase	10.766	N/A	24,000	<u>22,600</u>
Total U.S. Department of Agriculture				<u>780,650</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u><u>\$ 780,650</u></u>

CITY OF MUNISING, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Munising, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - OVERSIGHT AGENCY:

The U.S. Department of Agriculture is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the City's federal financial assistance.

CITY OF MUNISING, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

- Type of auditors' report issued: Unqualified
- Internal control over financial reporting:
 - No material weaknesses were identified.
 - There were reportable conditions identified (refer to Section II).
- Noncompliance items material to the financial statements were identified (refer to Section II).

Federal Awards

- Internal Control over major programs:
 - No material weaknesses were identified.
 - No reportable conditions not considered to be material weaknesses were identified.
- Type of auditors' report issued on compliance for major programs: Unqualified.
- Audit findings that are required to be reported in accordance with Circular A-133, Section .510(a): None.

Major Programs

- CFDA #10.766, Community Facilities Loan and Grant
- Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- Auditee qualified as low-risk auditee? No.

Section II - Financial Statement Findings

- The following noncompliance item was noted:

06-1 Condition: The City was found to be in violation of the legal and contractual provisions of Public Act 621 whereby excesses of expenditures over appropriations existed in certain individual funds as enumerated in Footnote T of the financial statements.

Criteria: Internal controls should be in place to ensure expenditures do not exceed appropriations.

Effect: When expenditures exceed appropriations, the City is in violation of Public Act 621 and there is a potential negative impact on the financial position.

CITY OF MUNISING, MICHIGAN
SCHEDULE FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2006

Recommendation: The City should monitor expenditures throughout the fiscal year to ensure expenditures do not exceed appropriations.

Management Response: Management concurs.

- The following reportable condition was noted:

06-2 Condition: The accounting system at the City contains general ledger accounts that are not being reconciled on a timely basis.

Criteria: Internal controls should be in place to ensure general ledger accounts are reconciled timely.

Effect: The general ledger contains the accounts and records which are the basis for the preparation of the interim financial statements and for the financial statements to be free of a material error or irregularity the general ledger accounts need to be reconciled timely.

Recommendation: Management should reconcile all general ledger accounts on a monthly basis and any adjustments to be made should be processed timely.

Management Response: Management concurs.

Section III - Federal Award Findings and Questioned Costs

- There were no findings and/or questioned costs identified.

CITY OF MUNISING, MICHIGAN
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

There were no prior year findings or questioned costs relating to
the City's major programs.